AirTran Airways, Inc.

Testimony

Before the Senate Commerce, Science and Transportation Committee
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The State of Airline Competition

An Opportunity to Create Lasting Competition with Significant Public Benefit

Statement of Joseph Leonard,
Chairman and Chief Executive Officer
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"The United-US Airways acquisition presents a unique opportunity to create and improve airline competition"

"Given the opportunity to compete at Reagan National …the consumer benefit of a true low fare network would easily exceed $690 million in the first year"

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Mr. Chairman and Members of the Committee:

As you go about the difficult work of considering the implications of the proposed United and US Airways merger, here are the key points that I think you should consider:

1) The merger of United and US Airways would NOT alter the already desperate condition of competition in the airline industry, and it WOULD strengthen both airlines.
2) The key element in the merger proposal is the structure of the divestiture of US Airways slots at Washington's Reagan National Airport. Does the divestiture create an effective remedy for the competitive problem it was designed to address?
3) The disposition of those slots through the proposed creation of DC Air would NOT provide meaningful competition, and it WOULD sharply curtail service in many communities currently served by US Airways. It also will almost certainly lead to fare increases in those markets.
4) Finally, and most important, this merger has opened the door to what I believe is a historic opportunity to expand service and lower fares in the most heavily protected bastion of the major airlines—Reagan National. The Executive Branch and the Congress are now facing the best and perhaps the last meaningful chance to stimulate service and lower fares at Reagan National for years to come.

Mr. Chairman, members of the Committee, I appreciate the opportunity to address you today on competition in the airline industry. Similar to Mr. Wolf and Mr. Goodwin, I have more than 30 years experience in aviation, having spent all of my adult life in this industry. My experience includes running maintenance operations for Northwest and American Airlines, COO and President of Eastern Airlines, President and CEO of Allied Signal's aerospace division, and for the past year a half, Chairman and CEO of AirTran Airways.

In that time I have experienced the highs and lows of the industry and have learned a thing or two about competition.

The state of competition in the airline industry is at best poor. In terms of the type of competition that is most beneficial to consumers – price competition – it is limited to those relatively few markets where a low fare carrier, like AirTran Airways and Southwest, provide competition. The fact of the matter is the big six carriers do not compete on price. And the combination of United and US Airways will not change that fact or significantly worsen an already struggling situation. The big six carriers are already combined as a result of marketing and code share alliances into three distinct camps; this proposed merger will only formalize the relationships and change some of the dance partners – but the dance will go on. I say this from the perspective of someone who has been struggling against the anti-competitive practices of the major airlines for some time, and with some success.

Over the past week, several members of congress have expressed concern about the concentration of the airline industry, particularly hub concentration. Unlike most low fare carriers, AirTran Airways chooses to compete in what would otherwise be a dominate hub – Atlanta – and while Delta still maintains 72% of the market to our 8.5%, the resulting price competition has made Atlanta the busiest airport in the world. Airfares in the markets we serve are 40 to 60% lower than other monopoly hub markets. The impact, however, goes beyond Atlanta. AirTran Airways' low fares create competition in connecting markets as well, as evidenced by lower average fares in markets like Buffalo to Dallas-Ft. Worth or Biloxi to Boston. Our low fare network provides the type of price competition that creates discipline among the major carriers and maintains the consumer benefits envisioned by deregulation.

I applaud Congress for the attention it has given to airline competition issues. It is clear to me without your vigilance, the few gains that new entrant carriers have made, and the consumer benefits resulting from those gains, would not have been possible. The provision within "Air 21" which requires large airports to file competition plans clearly and wisely recognizes the need for low fare, new entrant carriers to create beneficial competition. However, in terms of the overall trend in low fare competition, government policy on this is very much like the weather, everyone talks about it, but no one is doing anything about it.

I am proud to say that I have presided over the turnaround and return to profits of AirTran Airways. We have established a profitable low fare network by focusing on maintaining low costs and providing a safe, quality product with affordable fares. We have taken delivery of 11 brand new Boeing 717's and have orders for another 39 aircraft that will be delivered one per month over the next three years. This puts us in the enviable position to regulate our growth based on economic conditions and market opportunities. We can expand at a high rate by deferring aircraft retirements or increase retirements and maintain a steady state.

AirTran Airways is uniquely positioned to provide the type of competition that is called for in the merger of United and US Airways.

As you know, both United and US Airways acknowledge the need to divest of assets at Reagan National Airport as a condition of approval. Without this divestiture, the combined United would control two thirds of all flights from the Washington metropolitan area.

The question then, is whether the proposed creation of DC Air is a divestiture that will result in meaningful competition or in any way be in the public interest? The answer, quite simply, is "no".

Even a cursory review of the business plan clearly indicates that DC Air will not be an independent carrier. DC Air will lease United aircraft and flight crews, adopt the United pilot contract terms, use United maintenance and ground facilities, participate in the United frequent traveler program, all under the direction of a current US Airways Vice President. To affirm this control, United placed strict limitations on the sale and control of the DCA slots – the primary asset of the new carrier – which is a clever means to keep any real competition from entering the Washington metropolitan marketplace.

Given the structure of the proposed new airline, DC Air would have some of the highest costs in the industry. (See appendix pages 4–5) High costs and the extensive use of smaller aircraft are not a realistic formula for low cost service. Clearly no real competition and no consumer benefits will result from the new carrier. In fact, several markets would lose service as a result. (See appendix page 6) For example, upstate New York communities will have 48% to 56% fewer seats post-merger; Louisville will have 69% fewer seats while Greensboro and Raleigh-Durham will each lose more than 50% of current capacity. Where is the public benefit? The new carrier will reduce capacity in key East Coast cities, but not add significant capacity in any of United's mega-hubs – such as Charlotte or Pittsburgh, and no service to Chicago O'Hare.

Real competition comes from carriers with quality low fare service. AirTran Airways competition in Atlanta resulted in consumer savings of $700 million last year. In 1997 the DOT wisely granted AirTran Airways exemption slots to serve New York LaGuardia, the resulting competition saved New York consumers more than $175 million last year. One of the most significant markets not benefiting from low fare competition is Reagan National Airport – and while nearly every major airport in the United States is reporting record boardings, Reagan National is actually shrinking. This is a direct result of a lack of competition – clearly there is not a lack of demand for travel to Washington, but rather outrageously high fares suppressing demand. Given the opportunity to compete at

Reagan National with a network similar to that proposed for DC Air, we estimate the consumer benefit of a low fare network would easily exceed $690 million in the first year. (See appendix pages 12-14)

The conditions for approval of this acquisition – and we believe it should be approved - must include provisions for real competition by independent, new entrant carriers.

This is the key part of the merger equation—if the DC Air proposition is brushed aside, how will slots be reallocated? How that question is answered will have far more impact on passengers and fares than the merger itself.

If those slots become available, the Congress and the Executive branch can follow the traditional ineffective path of distributing them one by one to selected communities. I would call that the "let's feed all our children" scenario. Or you can do what the merger partners declined to do for obvious and self-serving reasons—reallocate the slots to one or two low fare carriers who would be required to network them to many cities, and in doing so break open the Reagan National monopoly. Reallocation of slots to AirTran Airways, either by voluntary divestiture or withdrawal, will clearly result in a level of competition never experienced at Washington's primary airport. Similar measures must be taken at other airports to ensure facilities are available for new entrant competition and to prevent the public harm that will result from increased monopolies.

If I was planning the legislative and regulatory tactics of the merger airlines, this would be my strategy: put DC Air on the table, knowing that it would be the best possible outcome for the merger airlines. If it runs into heavy flak, I'd fight the fight as long as I could, and then unveil a plan to disburse those Reagan National slots piecemeal, and to as many airlines as possible. That would be the way to guarantee that the slots could not hurt me -- if they were fragmented, there would be no consolidated market power leveraged against me.

It will not surprise you that AirTran Airways has ideas about how to carry out what I describe, and in the back of the handout that accompanies my statement you will see exactly what I describe along with the fare impact. These are not back-of-the-envelope computations—they are reflective of the well-documented impact AirTran Airways competition has had on prices and passenger demand in similar routes.

AirTran Airways has successfully demonstrated its ability to operate the type of low fare hub network envisioned by the DC Air proposal. We have competed profitably with Delta and other major carriers in Atlanta and other large and small markets throughout the Eastern United States. We are prepared to expand our low fare, quality brand of service from Washington National to markets such as Akron-Canton, Bloomington, Buffalo and other upstate New York markets, Greensboro, Charleston and Savannah as well the major markets we serve today, including Chicago and Minneapolis. AirTran Airways has repeatedly demonstrated in small and large markets that low fares and quality service significantly increase demand and consumer benefits. Ronald Reagan

Washington National is one of the few markets on the East Coast not to experience this benefit. We are seeking the opportunity to provide significant low fare service in this market – this is a unique opportunity to act to create real competition.

But the point, of course, is not whether AirTran Airways receives these slots—the point is what real, low-fare competition could do in this market place—be it AirTran Airways or another new entrant, low fare carrier.

Mr. Chairman, this concludes my prepared statement. I would be glad to respond to any question that you or any Members of the Committee may have.